

## EQS Group

Media

24 August 2018

### Transition year

EQS's interims show good progress in its evolution into a leading technology provider to corporate entities. With its revamped cloud-based COCKPIT platform scheduled for launch in Q418 and an ever-tightening regulatory environment, the elements are in place to underpin medium-term growth. The additional costs are weighing on current-year profitability and FY18 EBITDA guidance has been reduced, but our view is that this is an investment in making the group a credible and scalable partner in investor relations and compliance, with an attractive monthly recurring revenue base.

### H118 revenues well ahead

First-half revenues were up 14% at €17.1m, including a €0.7m contribution from Integrity Line, acquired in December 2017. This was split roughly half and half between investor relations and compliance, the group's newer area of activity, which grew its revenues by 31% over prior period (including the contribution from Integrity Line). The additional investment being made in the new COCKPIT platform meant an EBITDA result just below breakeven. The company has lowered FY18 guidance.

### New COCKPIT launches next phase

FY18 is a transition year with management energy primarily focused on the new platform, giving the group a robust and scalable resource. The German domestic market has been helpful, with a healthy IPO pipeline providing new investor relations clients. In compliance, EQS has launched Insider Manager, benefited from being an authorised issuer of Legal Entity Identifiers (LEIs) and added Integrity Line's whistle-blowing facility. In FY19, the new COCKPIT will enable EQS to offer clients integrated workflow platforms across both compliance and investor relations segments. It should be able to secure a larger share of client spend, generate 'sticky' monthly recurring revenues and improve the quality of earnings.

### Valuation: High multiples due to transitory state

With the current investment draining earnings, peer-based comparisons are less useful than usual. On an FY1 EV/sales basis, EQS is trading at a +30% discount. However, EQS trades at a substantial premium on more traditional multiples such as EV/EBITDA and P/E due to the temporary margin compression.

#### Consensus estimates

Year end	Revenue (€m)	PBT* (€m)	EPS* (€)	DPS (€)	P/E (x)	EV/EBITDA (x)	Yield (%)
12/16	26.1	2.4	0.96	0.75	78.6	49.6	1.0
12/17	30.4	0.8	0.16	0.00	N/A	27.7	N/A
12/18e	36.3	(0.4)	(0.44)	0.00	N/A	161.5	N/A
12/19e	42.9	0.8	0.36	0.12	112.7	31.2	0.2

Source: Bloomberg

**Price** €75.5  
**Market cap** €108m

#### Share price graph



#### Share details

Code	EQS
Listing	Deutsche Börse Scale
Shares in issue	1.43m
Net debt (€m) as at 30 June 2018	11.0

#### Business description

The EQS Group is a leading international technology provider for digital investor relations, corporate communications and compliance. With more than 8,000 client companies worldwide, its products and services are designed to fulfil complex national and international information obligations to the global investment community.

#### Bull

- Financial market regulation.
- Opportunities in governance and risk.
- High percentage of recurring and repeatable income.

#### Bear

- Renewed investment phase.
- EBIT margin yet to trend up.
- Dividend payment on hold.

#### Analysts

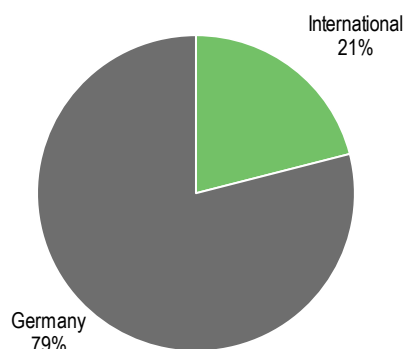
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## Review of H118 results

**Exhibit 1: Geographic mix H118**



Source: Company accounts

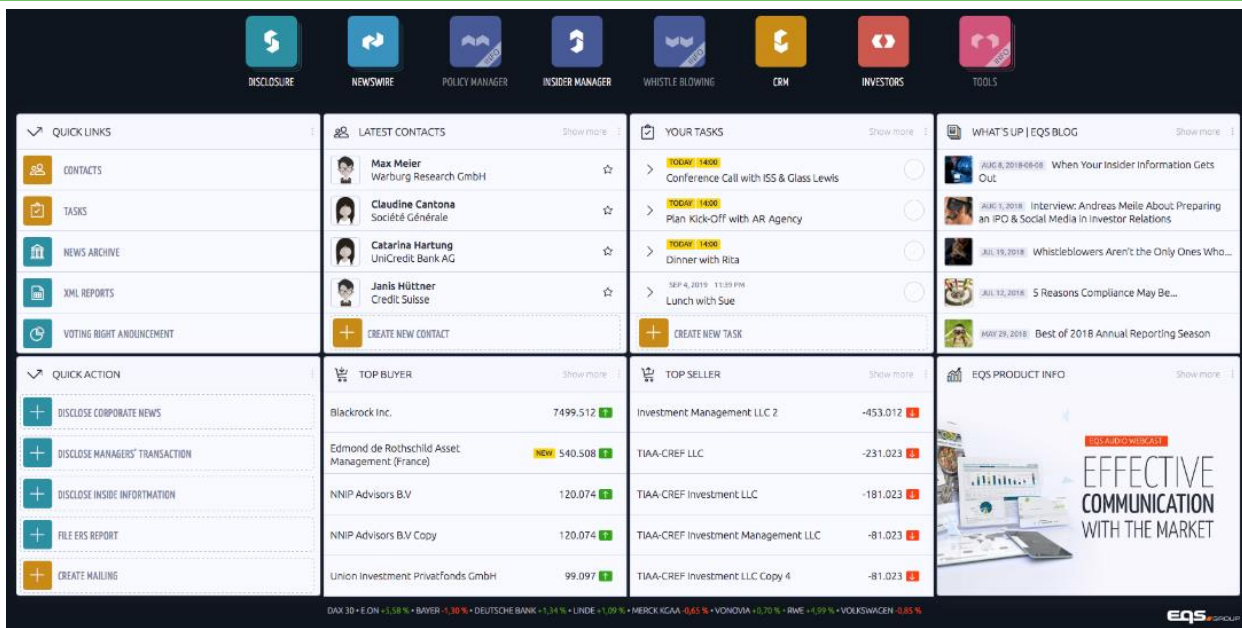
The German market accounts for the lion's share of group revenues, as shown above. In H118, domestic revenues were up 13%, partly as a result of the 'pull factor' of increasing regulation and partly through a healthy German IPO market, where EQS won all the available IPO business. This more than offset the more difficult trading at ARIVA in H118, where sales were down 5%. Management is attributing this to timing and anticipates a good H218.

International sales were up 19% in H118. This is entirely due to adding in Integrity Line, without which revenues dipped by 2%. Russia continues to be a strong market for the group, but progress in the US, UK and France has been more sluggish than hoped. From the bases in Germany, France and the UK, good new business was won across Europe, including in Spain, Sweden and Belgium, while some of the group's less profitable activities in Asia were wound down. With a growing proportion of the income stemming from monthly recurring revenues, the quality of forecast cash flows is obviously improving, resulting in better visibility and lower volatility of earnings. However, the renewed investment in COCKPIT meant that EBITDA fell to a loss of €0.05m (H117: €1.55m).

Nevertheless, operating cash flow for the six months just reported was €1.2m (H117: €0.4m), with just under €2.0m of own costs capitalised in the period. The total cash outflow of €5.2m was funded from increased borrowings, as planned. EQS raised €7.9m in a share placing in mid-December 2017, at €62.50, primarily to fund the purchase of Integrity Line (cost €5.0m) in Switzerland. At end FY17, net debt stood at €3.6m. By end June 2018, this had risen to €11.0m.

## New EQS COCKPIT due Q418

### Exhibit 2: Functionality within EQS COCKPIT



The screenshot displays the EQS COCKPIT dashboard with a dark blue header and a grid of functional modules. At the top, a row of icons represents different areas: DISCLOSURE, NEWSWIRE, POLICY MANAGER, INSIDER MANAGER, WHISTLE BLOWING, CRM, INVESTORS, and TOOLS. Below this, the dashboard is organized into several sections:

- QUICK LINKS:** Includes links for CONTACTS, TASKS, NEWS ARCHIVE, XML REPORTS, and VOTING RIGHT ANNOUNCEMENT.
- LATEST CONTACTS:** Lists recent contacts such as Max Meier (Warburg Research GmbH), Claudine Cantona (Société Générale), Catarina Hartung (UniCredit Bank AG), and Janis Hüttner (Credit Suisse), with a 'CREATE NEW CONTACT' button.
- YOUR TASKS:** Shows upcoming tasks like 'Conference Call with ISS & Glass Lewis' and 'Plan Kick-Off with AR Agency', with a 'CREATE NEW TASK' button.
- WHAT'S UP | EQS BLOG:** Features a list of recent blog posts with dates and titles.
- QUICK ACTION:** Provides buttons for DISCLOSE CORPORATE NEWS, DISCLOSE MANAGERS' TRANSACTION, DISCLOSE INSIDE INFORMATION, FILE ERS REPORT, and CREATE MAILING.
- TOP BUYER:** A table listing top buyers with their names and values, such as Blackrock inc. (7499.512) and Edmond de Rothschild Asset Management (France) (540.508).
- TOP SELLER:** A table listing top sellers with their names and values, such as Investment Management LLC 2 (-453.012) and TIAA-CREF LLC (-231.023).
- EQS PRODUCT INFO:** Promotes the 'EFFECTIVE COMMUNICATION WITH THE MARKET' product with a graphic.

At the bottom, a stock market ticker shows various indices and company performance, including DAX 30, E.ON, BAYER, DEUTSCHE BANK, LINDE, MERCK KGAA, VONOVIA, BMW, and VOLKSWAGEN.

Source: EQS

The work on the new platform is being carried out by developers in Europe and in Cochin in India, with more teams working on the new (or adapted) products that will sit on the platform, such as the CRM and Investors. The different functionalities will (post Q418 launch) all be accessible via a central dashboard linking to the underlying cloud-based COCKPIT, with modules as required by the client in an intuitive format, as shown above.

For investor relations, clients will be able to manage their newswires, CRM, CMS, Shareholder ID and analytics. In the corporate compliance sphere, clients will be able to centralise all their internal and external operational policies through a policy management solution.

There remains good potential for growing the group's client base across Europe, with further extensions into new markets such as energy exchanges as the rules for information dissemination become stricter.

## Regulatory framework ever more complex

The key short-term drivers in the governance and compliance arena are the last two regulations in Exhibit 3 below. In H217, EQS has introduced its new whistle-blowing system module. This falls under a broader service area, known as Integrity Line. Further products and services in the pipeline fall into the areas of CRM, policy management, a multimedia learning platform and a quiz generator that will be used for continuing professional development and compliance requirements.

While the broader corporate communications and PR market is estimated by The Holmes Report at over \$15bn globally, the investor relations market is considerably smaller at approximately \$1bn (Source: IR Society). The former is estimated to be growing at around a 7% CAGR, while the IR market is likely to be growing at a more modest rate. The emerging governance, risk and compliance market is estimated by Gartner to be worth over \$5bn (although with all these segments, the definitions can be hard to pin down accurately). Gartner's assessment is that it is growing at a CAGR of 13.4% and is therefore a particularly attractive area for EQS's involvement.

## Valuation

### Changing set of peers

As the group is transforming its business proposition, it makes sense for us to re-evaluate the peer set that we are using for comparative purposes. As EQS becomes more of a platform business with growing monthly recurring revenue streams, we have shifted emphasis away from Europe-listed B2B media companies, with a renewed focus on financial publishing and business services companies.

**Exhibit 3: Quoted financial platform stocks**

Company (reporting currency)	Ytd perf (%)	Price reporting currency	Market cap (m)	Hist EV/ sales last (x)	EV/sales 1FY (x)	EV/ EBITDA last (x)	EV/ EBITDA 1FY (x)	EV/ EBITDA 2FY (x)	P/E last (x)	P/E 1FY (x)	P/E 2FY (x)
Euromoney Instl Investor (£)	5	13.68	1,493.6	4.1	3.8	21.5	13.8	13.9	21.1	18.0	18.0
Dun & Bradstreet (\$)	6	125.82	4,666	3.3	3.3	12.6	11.0	10.6	18.4	14.8	14.3
Thomson Reuters (\$)	(2)	40.95	37,865	3.6	6.5	11.2	28.5	25.7	21.1	60.2	32.8
Envestnet (\$)	24	61.65	2,788	4.1	3.8	39.2	20.1	16.8	413.9	33.4	27.8
Morningstar (\$)	37	133.25	5,681	5.6		20.9			36.5		
Swissquote Group (€)	84	70.30	1,078	N/A	N/A	(35.2)			25.8	20.9	18.3
Globaldata (£)	(23)	1.84	161	1.7	4.9	7.9	7.5	7.5	15.9	9.2	9.4
MSCI (\$)	10	7.96	9,960	6.5	11.5	20.9	15.6	12.3	24.7	16.9	15.3
S&P Global (\$)	(29)	0.80	593	4.2	8.4	98.5	19.7	11.4	45.4	18.6	16.3
Marketaxess Holdings (\$)	8	4.15	1,662	5.7	15.4	24.0	18.0	15.2	33.7	25.6	22.2
Fidessa Group (£)	10	59.59	3,392	2.2	4.1	7.8	7.3	7.1	8.7	7.2	6.6
<b>Average</b>				<b>4.1</b>	<b>4.8</b>	<b>20.8</b>	<b>16.0</b>	<b>13.3</b>	<b>64.4</b>	<b>23.0</b>	<b>18.1</b>
EQS (€)	45	77.5	108	3.8	3.2	49.9	161.5	31.2	472.9	N/A	112.7

Source: Bloomberg, Edison Investment Research. Note: Prices at 23 August 2018.

Given the earnings numbers are suppressed by the investment phase, the only remaining available traditional multiple is that of EV/sales. For FY1 EQS is trading at a 34% discount to the global peer set of quoted financial platform stocks and at 3.8x historic EV/Sales against 4.1x. Due to the current low level of profitability, EQS trades at a substantial premium on earnings multiples.

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